

TRADE PROMOTION

SPENDING & MERCHANDISING
1998 INDUSTRY STUDY

*THE PROMOTION
PARADOX . . .*

. . . MYTH OR REALITY ?

EXECUTIVE SUMMARY

RECOMMENDED ACTIONS

Several clear implications emerge from these principles—basic recommendations we would encourage all companies to consider in order to join the ranks of smart marketers for whom the notion of the promotion paradox is little more than a myth.

By focusing on mutual benefits, manufacturers and retailers can achieve win-win outcomes and superior performance.

To achieve these outcomes, we recommend three activities for all organizations.



① BENCHMARK YOUR PROCESSES:

The goal should be to develop an integrated promotion management cycle with appropriate identification of needs/gaps.

The organizational processes need to be fully aligned with responsibilities consistently managed throughout the planning/execution/control/analysis cycle. While this does not mean that one group must have primary responsibility for all areas, there should be consistent oversight.



OVERVIEW/FINDINGS

TRADE PROMOTION...#1 ISSUE

The results of the 1998 Trade Promotion Study confirm that Trade Promotion inefficiency is the #1 manufacturer issue with 90% of manufacturer participants rating it as very/extremely important. What is remarkable, however, is that after several years of trend tracking, Trade Promotion remains the top issue while many other issues have declined in importance including category management and item variety vs. duplication.

*"Improving Trade Promotion efficiency
is our #1 issue."*

- Manufacturer

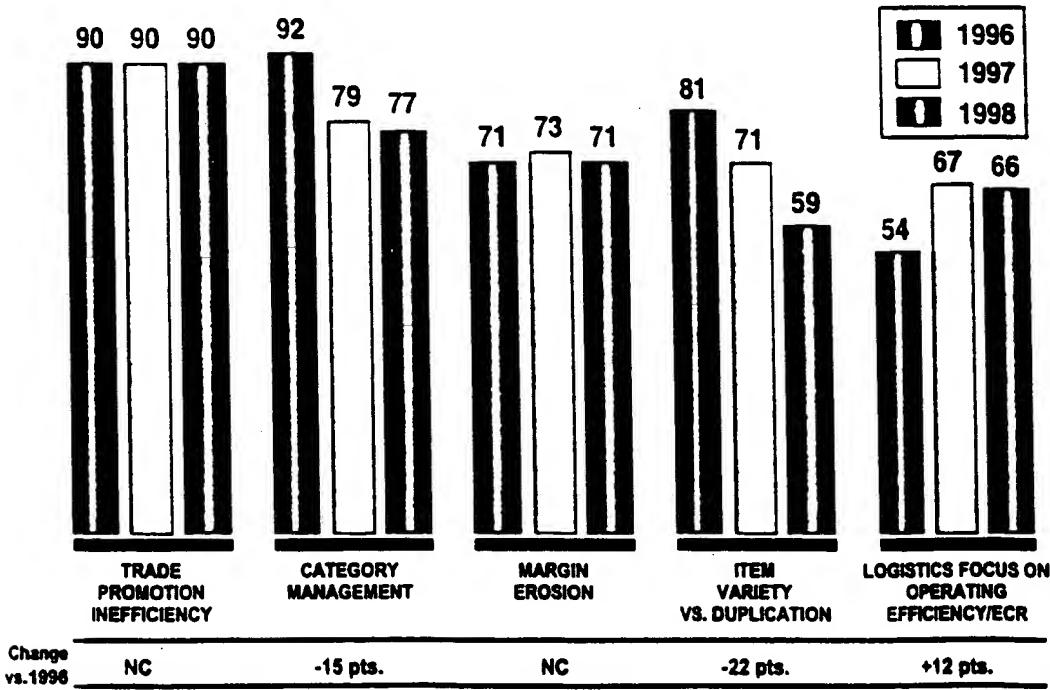
*"When it's the #2 line item on our P&L, we'd better
understand where it's going and what we're
getting in return for our dollars."*

- Manufacturer

*"It is puzzling that we've made so little progress
on this issue. Not only over the past few
years but over the past decade."*

- Manufacturer

% MANUFACTURERS RATING "VERY / EXTREMELY IMPORTANT"



OVERVIEW / FINDINGS

TRADE PROMOTION TRENDS

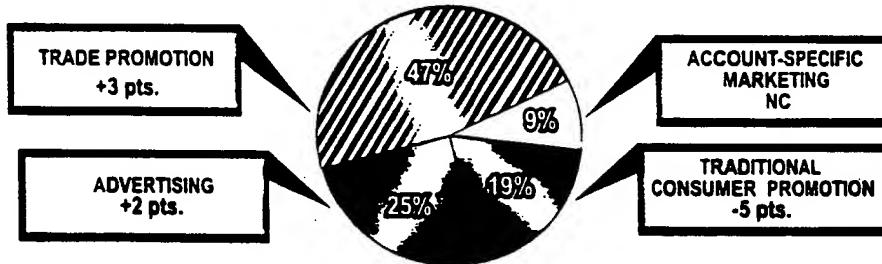
TOTAL DOLLARS INCREASING

The components of marketing budgets have shifted substantially over the past year. Trade Promotion has increased to 47% (+3 pts.) of the overall budget while consumer promotion has declined by five points to 19%. Account-specific marketing funds appear to have been sourced from traditional consumer promotion vs. Trade Promotion as expected.

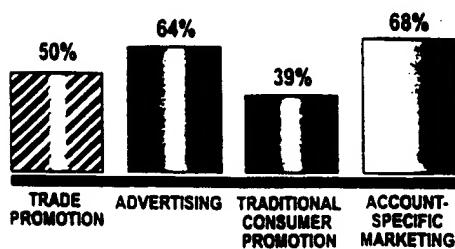
"While Trade Promotion represents close to half of our budget, the amount that we're spending through the customer is closer to 60%." - Manufacturer

"Account-specific marketing, whether it's traditional trade or consumer, is what we desire to help build our franchise." - Retailer

CURRENT % OF MARKETING BUDGET (POINT CHANGE VS. 1997)



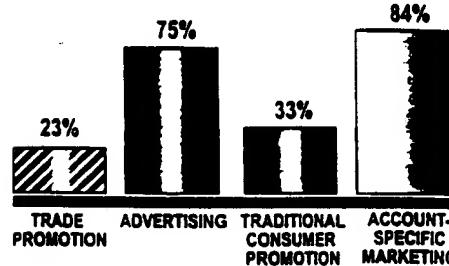
PAST 5-YEAR
CHANGES IN MARKETING EXPENDITURE
% Indicating Budget Increase



PLChg.
vs.1997

-3 +2 +10 -1

NEXT 5-YEAR
CHANGES IN MARKETING EXPENDITURE
% Indicating Budget Increase



-2 +1 +2 -10

OVERVIEW/FINDINGS

TRADE PROMOTION TRENDS

DISCRETIONARY FUNDS CONTINUE TO GROW

The mix within the Trade Promotion budget continues to shift as expected. There has been a considerable groundswell toward discretionary funds now comprising 37% of the Trade Promotion budget (+4 points versus prior year). Off-invoice continues to decline as a percent of the overall fund.

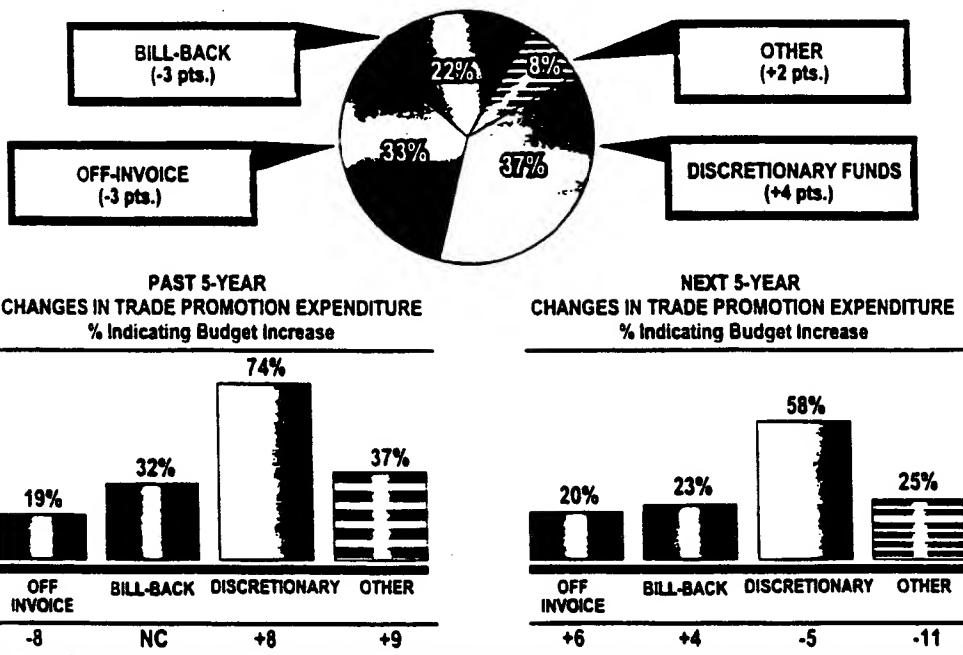
The five year outlook projects a continuation of past trends, with discretionary funds being the primary driver.

The use of discretionary funds allows greater sales latitude in the overall expenditure of funds. To ensure that this is accountable discretion, we anticipate greater focus on pay-for-performance activities.

"At whose discretion are these dollars?" - Retailer

"If we don't do our homework I don't care if it's discretionary or off-invoice or account-specific." - Manufacturer

CURRENT % OF TRADE PROMOTION EXPENDITURE (POINT CHANGE VS. 1997)



OVERVIEW/FINDINGS

TRADE PROMOTION TRENDS

PERCENT OF GROSS SALES

Trade Promotion represents the second largest line item on consumer packaged goods manufacturers' P&L's, trailing only cost of goods sold.

Given the magnitude of this expenditure, which is significant for companies of all sizes, it is surprising that manufacturers aren't more effectively addressing this area.

AVERAGE CPG COMPANY P&L (Index)

NET SALES 100

-COST OF GOODS SOLD (53)

GROSS PROFIT 47

-TRADE PROMOTION (13)

-ADVERTISING (7)

-CONSUMER / OTHER (7)

-OTHER SG&A (8)

PROFIT (BEFORE TAX) 12

PROFIT (AFTER TAX) 7

TRADE PROMOTION RANGE

% OF SALES	% OF SAMPLE
>20 %	15 %
>15-20 %	13 %
>10-15 %	31 %
>5-10 %	33 %
0-5 %	8 %

NOTE: Chart on right depicts range of trade promotion expenditures as a percent of sales among manufacturers. The mean is 13 percent.

OVERVIEW/FINDINGS

TRADE PROMOTION PERFORMANCE

DISSATISFACTION

Trade Promotion performance continues to be problematic for both manufacturers and retailers. However, retailer dissatisfaction dropped by 11 points to 62%—an all time low—perhaps indicating that the combination of traditional trade dollars and account-specific marketing dollars is increasing their share of funding and support.

Manufacturer concern is at an all time high with 84% believing that they are not getting a good value for their Trade Promotion dollar.

Both manufacturers and retailers need to work together to develop credible solutions and create win-win outcomes.

% AGREE

ALL-TIME HIGH

84% DO NOT FEEL THEY
ARE GETTING A GOOD
VALUE FOR THEIR TRADE \$.



MANUFACTURERS BELIEVE
TRADE PROMOTION IS A
POOR INVESTMENT

ALL-TIME LOW

62% ARE NOT
SATISFIED WITH THEIR
SHARE OF TRADE \$.

62%



RETAILERS FEEL
SHORTCHANGED

CHG.VS.1997

+2 pts.

-11 pts.

15

CANNONDALE

OVERVIEW/FINDINGS

PROBLEMS REMAIN

WHY ISN'T TRADE PROMOTION PERFORMANCE IMPROVING?

While significant changes have occurred as indicated on the table below, in many cases Pyrrhic victories have been achieved where losses have exceeded the gains.

There is complete agreement between manufacturers and retailers on the top five most significant changes that have occurred over the past two years: better analysis, longer term planning, reduction of OI, account-specific marketing and pay-for-performance.

While there is agreement on the changes, there is significant disagreement on the problems that exist and the impact of changes that have already occurred, be they beneficial or detrimental. Manufacturers believe that deductions, non-pass-through, non-performance, inadequate analysis and lack of consumer integration are the five critical problems. Retailers believe that insufficient funding, poor planning, reduction in OI, poor execution and diverting are the most significant problems in Trade Promotion. There is absolutely no common ground in problem identification.

MANUFACTURERS		RETAILERS	
MOST SIGNIFICANT CHANGES (TOP 5)			
1) BETTER ANALYSIS	58%	1) REDUCTION OF OI	64%
2) LONGER-TERM PLANNING	43%	2) PAY-FOR-PERFORMANCE	49%
3) REDUCTION OF OI	41%	3) LONGER-TERM PLANNING	41%
4) INTEGRATION WITH ACCT-SPEC MARKET	40%	4) INTEGRATION WITH ACCT-SPEC MARKET	35%
5) PAY-FOR-PERFORMANCE	31%	5) BETTER ANALYSIS	32%
MOST SIGNIFICANT PROBLEMS (TOP 5)			
1) DEDUCTIONS	57%	1) INSUFFICIENT FUNDS	56%
2) NON-PASS-THROUGH	48%	2) POOR PLANNING	42%
3) NON-PERFORMANCE	43%	3) REDUCTION OF OI	38%
4) INADEQUATE ANALYSIS	42%	4) POOR EXECUTION	37%
5) LACK OF CONSUMER INTEGRATION	35%	5) DIVERTING	25%

OVERVIEW/FINDINGS

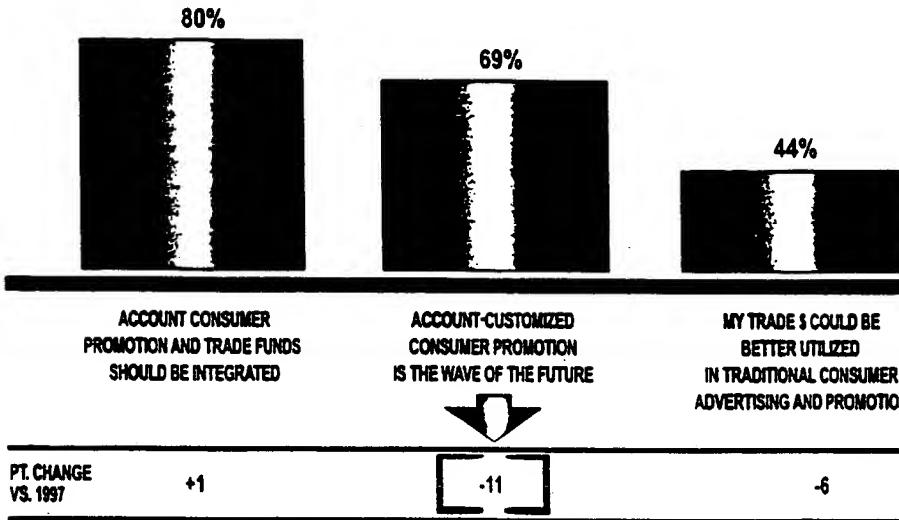
ASM IS NOT A PANACEA

THE HONEYMOON MAY BE OVER

The chart below supports our hypothesis that smart marketers are recognizing the benefits of better integration of funds and programs. While not all manufacturers believe that trade or customer promotion is the answer, they do believe that integrated funds and account-customized promotions will become increasingly important.

However, while 69% of manufacturers believe that account-customized consumer promotion is the wave of the future, this fell by 11 points versus year ago.

MANUFACTURER % AGREE



OVERVIEW/FINDINGS

LEADERSHIP... RETAILERS

WHO'S WHO IN UTILIZING TRADE FUNDS EFFECTIVELY

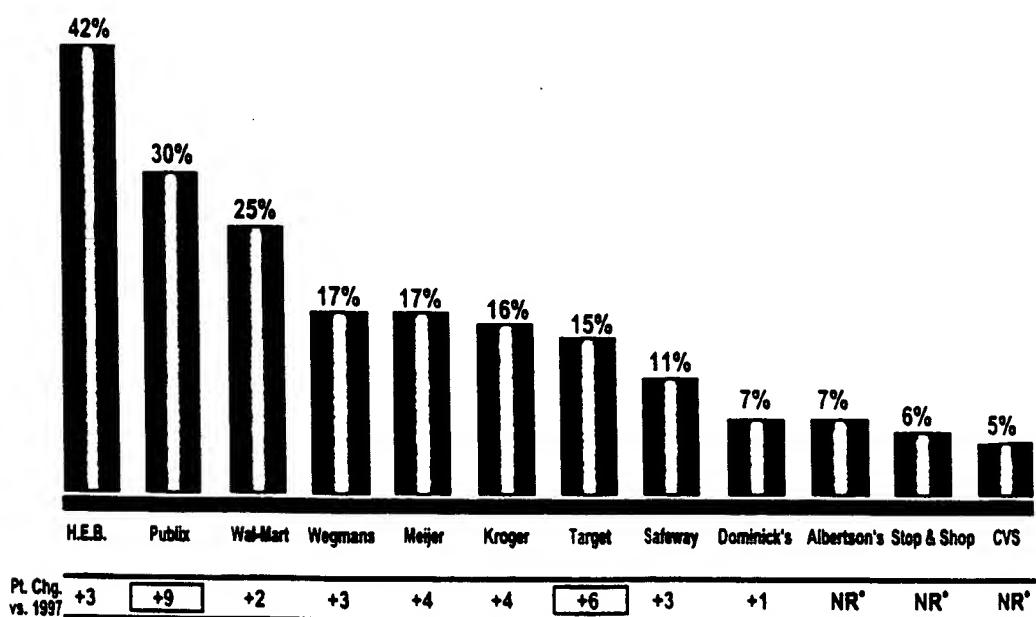
H.E.B.'s dominance continues among all retailers when asked the question: "Which retailers are industry leaders in utilizing trade funds most effectively?" We continue to see strong performance among both regional and national chains with Publix and Target picking up considerable ground.

For the first time, we have seen a major drug retailer on our "Who's Who" list among retailers with CVS checking in at five percent.

"There's nothing proprietary about good Trade Promotion practices; it's just that some retailers practice what they preach." - Manufacturer

WHO'S WHO AMONG RETAILERS

% OF MANUFACTURERS RATING IN TOP 3



*Not rated in 1997

CANNONDALE

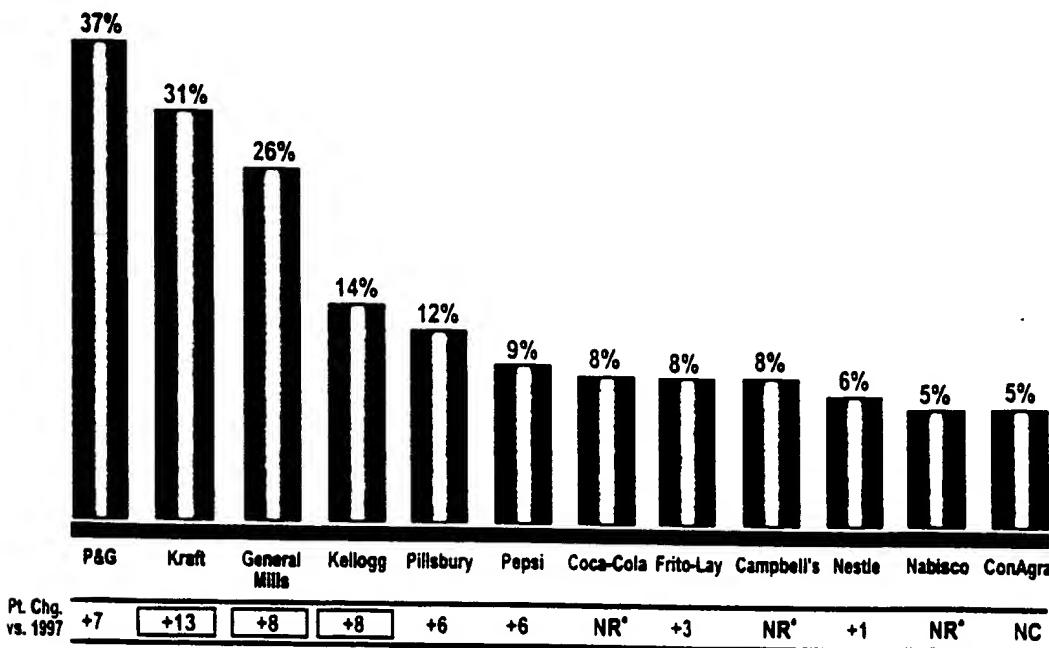
OVERVIEW/FINDINGS

LEADERSHIP... MANUFACTURERS

WHO'S WHO IN UTILIZING TRADE FUNDS EFFECTIVELY

While retailers indicate P&G is still #1, it no longer is in a class by itself. The strong contenders that were waiting in the wings have now moved into position. Kraft and General Mills are clearly perceived to be in near lock-step with P&G on Trade Promotion management.

WHO'S WHO AMONG MANUFACTURERS
% OF RETAILERS RATING IN TOP 3



*Not rated in 1997

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